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Written by **Bob Adelmann** on August 1, 2018

U.S. Household Debt at $13.2 Trillion — Cause for Worry?

The latest report from the Federal Reserve Bank of New York triggered all manner of financial anxiety. At $13.2 trillion, total U.S. household debt increased from $12.7 trillion a year ago, a jump of nearly four percent. Lending Tree, a loan comparison website, reported that the consumer-debt portion of total household debt will hit $4 trillion well before the end of the year. It added that Americans owe more than 26 percent of their annual income to this debt, up from 22 percent in 2010, and that debts on auto loans and credit cards are climbing by more than seven percent a year.

The savings rate of the average American household has declined to 2.4 percent, nearly a record low.

Last year, the Federal Reserve rattled the markets with its survey that indicated that 35 percent of U.S. adults reported that they would not be able to pay all of their bills if they were faced with a $400 emergency.

Kevin Wack at American Banker wrote that, in his opinion, Americans have learned little from the lessons taught during the Great Recession that followed the financial crisis of 2007-2008: “We still borrow more and save far less than prudence would dictate.”

How valid are those concerns?

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First, it is likely that the savings rate is low because interest rates are low. What is the incentive to save when rewards for doing so are so low?

Second, credit-card delinquency rates are at just 2.4 percent, close to historic lows.

Third, total household debt-service payments, when compared to household disposable income, are at just 10.21 percent, down from the 13.22 percent high touched as the financial crisis hit in 2007. In fact, that 10-percent number has stayed remarkably steady since the fourth quarter of 2012.

Even the older generation is in better shape than it has been in years. A study by the Employee Benefit Research Institute (EBRI) reported in March that debt levels among elderly and near-elderly have decreased by more than eight percent since 2010, with debt-service payments falling a commensurate seven percent. And elders have been paying down their debts too, with older families’ debt as a percentage of assets declining from 8.4 percent in 2010 to 6.5 percent today.

Instead of splurging on auto and truck purchases and taking out second mortgages and home-equity lines of credit to fund current consumption, U.S. households are being more financially prudent than they have been in years.

Add to that equation what has happened — and is continuing to happen — to the U.S. economy since 2016, and one can draw a deep breath and relax: more jobs, higher wages, more capital investment, billions pouring in from abroad (thanks not only to repatriation but the increasing perception that America is now the best place in the world to invest), and consumer and small-business owner sentiment continuing to hit new highs all give support to the view that Americans' financial condition will continue to improve, making those debt-service payments even more manageable for the foreseeable future.

An Ivy League graduate and former investment advisor, Bob is a regular contributor to The New American *magazine and blogs frequently at LightFromTheRight.com, primarily on economics and politics. He can be reached at badelmann@thenewamerican.com.*

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